

From optimism to pessimism

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ANIS CHOWDHURY and IYANATUL ISLAM

HERE is no doubt that the world is heading towards the worst economic crisis since World War II. In purchasing power parity terms, according to the IMF global growth in 2009 will be a meagre 0.5%, and measured in terms of market exchange rates, global economy will shrink.

IMF's World Economic Outlook (WEO) accepts the severity of the crisis that originated in a small segment of the US financial sector. In November 2008, it projected a global growth rate of 2.2% for 2009. The IMF had the most optimistic projections relative to other multilateral agencies and private sector estimates.

It took one and a half years for the IMF to realise that this crisis would soon engulf the world. A month before the first tremors of the US "sub-prime" mortgage crisis were felt, the IMF noted: "The

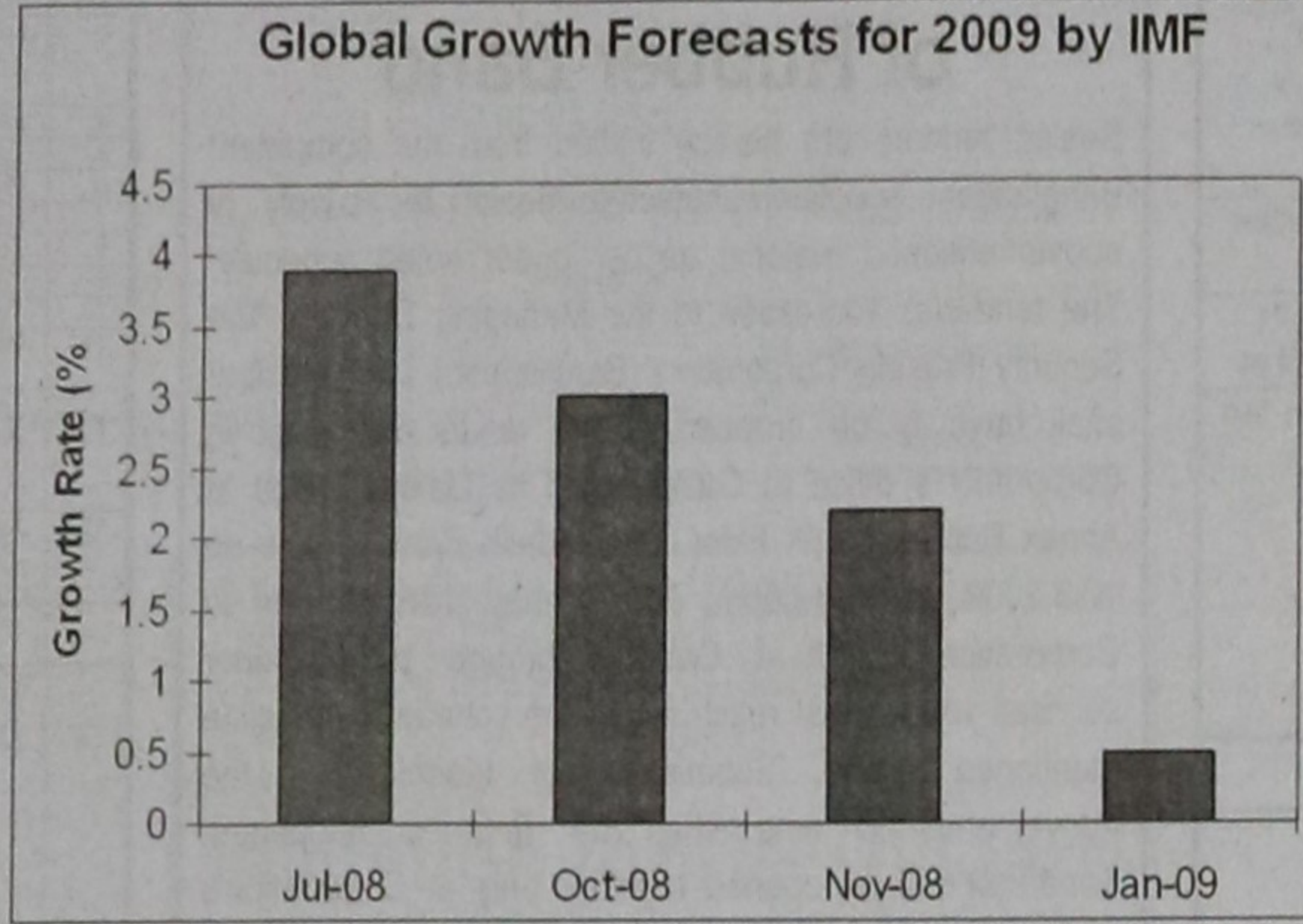
strong global expansion is continuing, and projections for global growth in both 2007 and 2008 have been revised (upwards)."

A little over a year later, the IMF revised its projections downwards because the world economy was heading towards a major recession. The graph shows how the IMF changed its projections for 2009 between July 2008 and January 2009.

Three months before the crisis began in August 2007, the OECD released its 2007 World Economic Outlook, in which it commented:

"In its Economic Outlook last autumn, the OECD took the view that the US slowdown was not heralding a period of worldwide economic weakness, unlike, for instance, in 2001. Rather, a 'smooth' rebalancing was to be expected, with Europe taking over the baton from the United States in driving OECD growth."

Recent developments have broadly



confirmed this prognosis. Indeed, the current economic situation is in many ways better than what we have experienced in years. Against that background, we have stuck to the rebalancing scenario. Our central forecast remains indeed quite benign: a soft landing in the United States, a strong and sustained recovery in Europe, a solid trajectory in Japan and buoyant activity in China and India. In line with recent trends, sustained growth in OECD economies would be underpinned by strong job creation

and falling unemployment. (OECD World Economic Outlook Vol 81 p. 7)"

There seems to be no credible reason for such optimism. Signs of an impending crisis were visible at least since 2006. The Department of Economic and Social Affairs of the United Nations warned:

"The possibility of a disorderly adjustment of the widening macroeconomic imbalances of the major economies is a major risk which could harm the stability and growth of the world economy... A reversal in house prices... will heighten

the risk of default and could trigger bank crises... A sharp fall in house prices in one of the major economies could, then, precipitate an abrupt and destabilising adjustment of the global imbalances (WESP 2006, pp v-viii)."

Again in 2007 WESP warned: "The possibility of a more severe downturn in housing markets represents a significant downside risk to the economic outlook... Current account imbalances across regions and countries have widened further in 2006... The indebtedness of the United States has deepened to a level which more seriously calls into question the sustainability of current constellation of global imbalances (WESP 2007, p. vi)."

The supposed guardians of the world economy simply ignored these warnings and projected a rosy picture, and at worst a "soft landing."

WESP not only had the correct analysis of the underlying risks for the world economy, it also seems to have the more realistic projections for the 2009 growth. When, in November 2008, the IMF was projecting a global growth rate of 2.2% for 2009, WESP projected a base-line growth rate of 0.9%.

In a time of uncertainty, it is logical to include both optimistic and pessimistic scenarios for projections. Thus, WESP offered three forecasts for global growth for 2009: (a) baseline estimate of 0.9%, a pessimistic scenario in which global growth becomes negative (-0.4%) and an

optimistic scenario of 1.6% global growth in 2009.

In the optimistic scenario, a coordinated fiscal stimulus equivalent to 1.5% to 2.0% of global GDP will be implemented in 2009, while financial markets will recover in response to the monetary stimulus undertaken by the advanced economies. The baseline projection incorporates the positive impact of monetary stimulus and state-led support for financial institutions in the developed world, but does not assume any additional fiscal stimulus.

The WESP estimates provide a range of scenarios that seem to be missing in the projections offered by the IMF and the World Bank. WESP projections show that global growth will be anaemic.

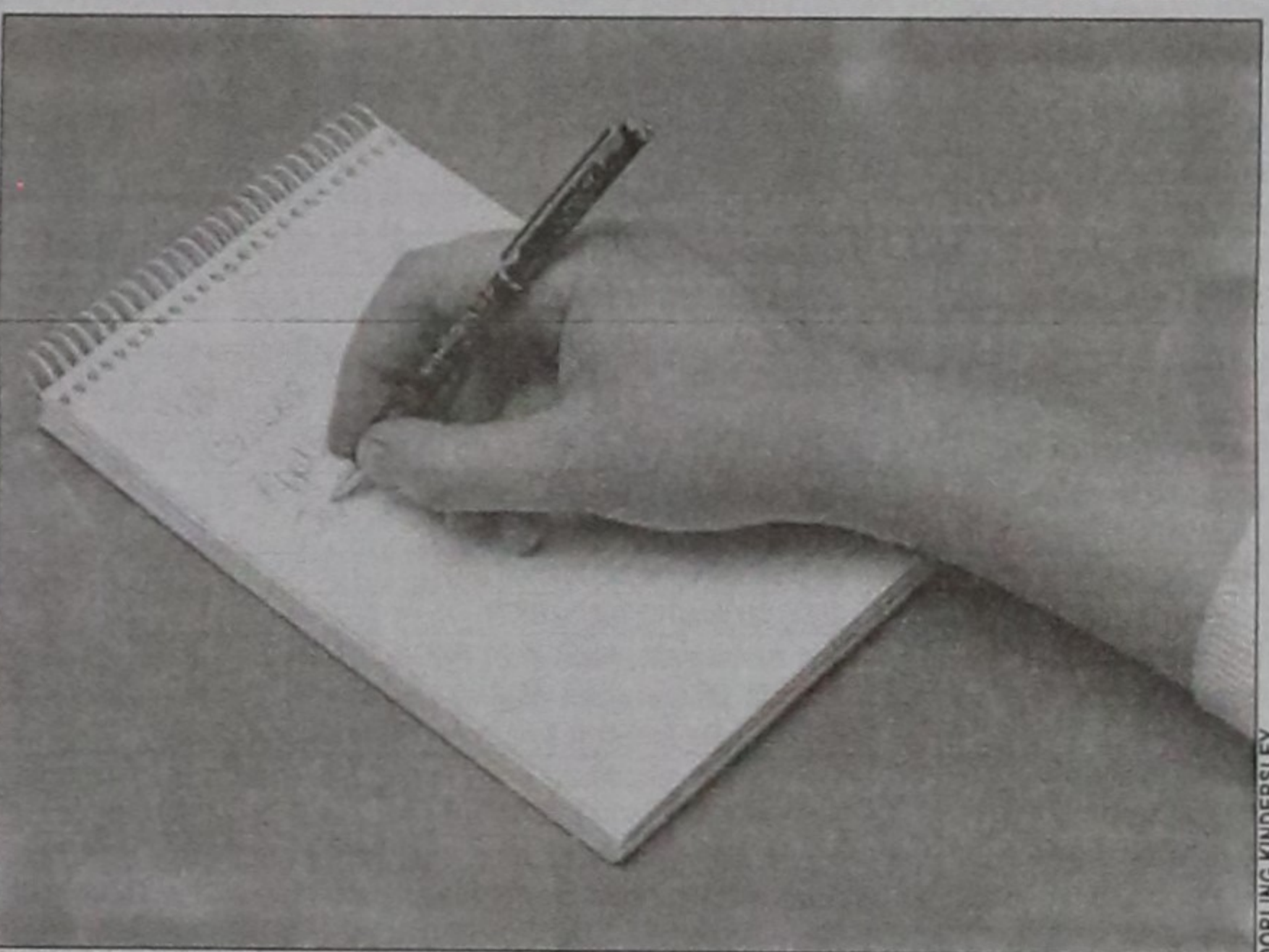
Duetsche Bank (DB) predicts that global growth will barely be above zero (0.2%) for 2009. A recent issue of the RGE Monitor claims that US GDP growth will be -3.4% in 2009 (RGE Monitor Newsletter, January 7, 2009).

Given the dismal track record of the IMF and the OECD, one would have thought that their credibility would be in tatters. Sadly, this is not the case. Instead, we seem to seek counsel about the crisis from the very organisations that could not foresee it.

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Five top priorities

The new government has completed 30 days in office, which is too short a time to assess its performance. However, there are things that the people would expect the government to address on priority basis. If the government really means what it says, it should not be a big problem to deal with the situation.



HUSAIN IMAM

THE new government has completed 30 days in office, which is too short a time to assess its performance. However, there are things that the people would expect the government to address on priority basis. The 5 top priorities are:

Maintaining law and order and establishing rule of law: With the lifting of emergency rules, completion of two important elections and establishment of a new government, it is natural that the law and order situation will tend to deteriorate. It now depends on how quickly and efficiently the government handles the situation.

If the government really means what it says, it should not be a big problem to deal with the situation. If it really believes that the criminals belong to no party, the task becomes easier.

- Carry out a thorough reform of the police administration.
- Pay them handsome salary.
- Make them strong and efficient.
- See that they can work freely and independently without undue interference of the political parties, at the same time remaining under strict surveillance and accountability.

Bringing down the prices of food and

other essential items: This will require not only close monitoring of the market mechanism but also a multi-pronged attack on several other fronts; such as: prevention of smuggling, hoarding, extortion and business monopoly or syndication. The other aspect is to increase production at domestic level and generate employment opportunities.

The performance of the new government in bringing down the prices of rice, wheat and edible oil is commendable. A kilo of coarse rice now sells at Tk. 25-26, which was Tk. 30-32 only a month ago.

The price of wheat has come down to Tk. 26 a kilo, which was Tk. 46 a kilo when the government took over office. The price of edible oil is now Tk. 80 per liter, which was Tk. 116 a liter when this government assumed power.

The government has reduced the price of diesel, though not to the extent one would have expected. It is hoped that they will reduce it further so as to have some visible impact on transport and other costs. They have reduced the price of fertiliser to almost half, which is sure to give the farmers a great incentive in increasing food production.

Those who do not want to give any credit to this government, or try to belittle its achievement by saying that the reduction was possible because of sharp decrease in prices in the international

market, quite conveniently suppress the fact that the decline in price in the international market began almost six months ago without making any impact in our domestic market, until this government came to power last month.

Addressing the electricity and energy crisis: There is a shortage of roughly 2000 megawatt of electricity. Taking into account the increase in demand of electricity at an average 600 megawatt per year, the government has to produce an extra 5000 megawatt of electricity by the end of its tenure if it really wants to carry out the development activities as promised in its election manifestos. The government is yet to unfold its program in this respect. The sooner it is done the better.

Tackling corruption issue with iron hands: If there is one thing that has eaten the very vitals of this country, it is the unbridled corruption that has found its way into every nook and corner of the society. The people will certainly like this government to carry on with the anti-corruption drive firmly and effectively. The plunderers of national wealth, whoever they may be, must not go unpunished.

The anti-corruption drive launched by the caretaker government failed to deliver the goods because it was directed not so much to eliminate corruption as it was to target the leadership of the two main political parties.

It does not mean that there is no corrupt person in the leadership of the two political parties, who have ruled the country by turn. There are many at both mid and higher levels of leadership of these parties, perhaps more in BNP, who have amassed huge wealth illegally and siphoned off millions of dollar to foreign countries.

At the same time, it will be a travesty of truth to say that only the politicians were corrupt. There are probably a lot more in the other sectors as well. It is the bounden duty of the government of Sheikh Hasina to bring these people to justice through due process of law if she has to bring about the "change" she has so emphatically promised.

Making the parliament effective: It is ridiculous to even think that the parliament of a country can run into deadlock on such petty issues as seat sharing with an opposition party, which has only 31 seats in the 300-strong parliament. Why not let the honourable members of the opposition bench sit wherever they feel like? But make sure they come to the parliament to explain their past deeds, if not for anything else.

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Worthwhile Canadian initiative

Canada has done more than survive this financial crisis. The country is positively thriving in it. Canadian banks are well capitalised and poised to take advantage of opportunities that American and European banks cannot seize.

FAREED ZAKARIA

THE legendary editor of The New Republic, Michael Kinsley, once held a "Boring Headline Contest" and decided that the winner was "Worthwhile Canadian Initiative." Twenty-two years later, the magazine was rescued from its economic troubles by a Canadian media company, which should have taught us Americans to be a bit more humble. Now there is even more striking evidence of Canada's virtues. Guess which country, alone in the industrialised world, has not faced a single bank failure, calls for bailouts or government intervention in the financial or mortgage sectors. Yup, it's Canada. In 2008, the World Economic Forum ranked Canada's banking system the healthiest in the world. America's ranked 40th, Britain's 44th.

Canada has done more than survive this financial crisis. The country is positively thriving in it. Canadian banks are well capitalised and poised to take advantage of opportunities that American and European banks cannot seize. The Toronto Dominion Bank, for example, was the 15th-largest bank in North America one year ago. Now it is the fifth-largest. It hasn't grown in size; the others have all shrunk.

So what accounts for the genius of the Canadians? Common sense. Over the past 15 years, as the United States and Europe loosened regulations on their financial industries, the Canadians refused to follow suit, seeing the old rules as useful shock absorbers. Canadian banks are typically leveraged at 18 to 1 -- compared with U.S. banks at 26 to 1 and European banks at a frightening 61 to 1. Partly, this reflects Canada's more risk-averse business culture, but it is also a product of old-fashioned rules on banking.

Canada has also been shielded from the worst aspects of this crisis because its housing prices have not fluctuated as wildly as those in the United States. Home prices are down 25 percent in the United States, but only half as much in Canada. Why? Well, the Canadian tax code does not provide the massive incentive for over-consumption that the U.S. code does: interest on your mortgage isn't deductible up north. In addition, home loans in the United States are "non-recourse," which basically means that if you go belly up on a bad mortgage, it's mostly the bank's problem. In Canada, it's yours. Ah, but you've heard American politicians wax eloquent

on the need for these expensive programs -- interest deductibility alone costs the federal government \$100 billion per year -- because they allow the average Joe to fulfill the American Dream of owning a home. Sixty-eight percent of Americans own their own homes. And the rate of Canadian homeownership? It's 68.4 percent.

Canada has been remarkably responsible over the past decade or so. It has had 12 years of budget surpluses, and can now spend money to fuel a recovery from a strong position. The government has restructured the national pension system, placing it on a firm fiscal footing, unlike our own insolvent Social Security. Its health-care system is cheaper than America's by far (accounting for 9.7 percent of GDP, versus 15.2 percent here), and yet does better on all major indexes. Life expectancy in Canada is 81 years, versus 78 in the United States; "healthy life expectancy" is 72 years, versus 69. American car companies have moved so many jobs to Canada to take advantage of lower health-care costs that since 2004, Ontario and not Michigan has been North America's largest car-producing region.

I could go on. The U.S. currently has a brain-dead immigration system. We issue a small number of work visas and green cards, turning away from our shores thousands of talented students who want to stay and work here. Canada, by con-

trast, has no limit on the number of skilled migrants who can move to the country. They can apply on their own for a Canadian Skilled Worker Visa, which allows them to become perfectly legal "permanent residents" in Canada -- no need for a sponsoring employer, or even a job. Visas are awarded based on education level, work experience, age and language abilities. If a prospective immigrant earns 67 points out of 100 total (holding a Ph.D. is worth 25 points, for instance), he or she can become a full-time, legal resident of Canada.

Companies are noticing. In 2007 Microsoft, frustrated by its inability to hire foreign graduate students in the United States, decided to open a research center in Vancouver. The company's announcement noted that it would staff the center with "highly skilled people affected by immigration issues in the U.S." So the brightest Chinese and Indian software engineers are attracted to the United States, trained by American universities, then thrown out of the country and picked up by Canada -- where most of them will work, innovate and pay taxes for the rest of their lives.

If President Obama is looking for smart government, there is much he, and all of us, could learn from our quiet -- OK, sometimes boring -- neighbour to the north. Meanwhile, in the councils of the financial world, Canada is pushing for new rules for financial institutions that would reflect its approach. This strikes me as, well, a worthwhile Canadian initiative.

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Everything we need to know about money



THE beginning of the financial year in most international businesses is April, and senior executives get together and talk about money.

But the beginning of the calendar year for most people is January, and I sit down with my children and we talk about

pocket money. My experience is that the two confabs are almost IDENTICAL, right down to the fighting over snacks and the sneaking of toys into the room.

Yet there's one big difference, which is particularly clear this year. Adults make wildly wrong decisions about money. Kids get things right by instinct. Indeed, I would go so far as to say:

Everything you need to know about money you can learn from your kids.

- Girls eventually stop buying toys, but boys never do.
- If you have a tiny, completely useless bit of money and you put it in a savings

account and wait for a year, you find that at the end of the year it is still a tiny, completely useless bit of money.

- Some people will pay a premium for stuff that is shiny, but the smart ones don't.
- Spending money feels good, but coming out of shop without having spent any feels even better.
- They say that "money talks," but it doesn't. It just kind of lies there.
- The amount of pocket money you lend to someone is never the amount you get back. Whether you get more, less, or none of it back depends on how well you chose the kid you lent it to.

- Girls spend their money on small, cheap, completely useless things, while boys spend their money on big, expensive, completely useless things.
- People who get loads of pocket money and people who get hardly any still waste the same proportion of it on silly things.
- Wasting some of your money on silly things is really important.
- It is impossible for a girl to have too many bags or shoes.
- It is impossible for a boy to have too many gadgets or transport-related items.
- Goodie-goodie kids who save all their

money are never as fun to be friends with as naughty kids who spend all their money.

- But when you need to borrow some money, the goodie-goodie kids suddenly start to seem to be really fun people to be friends with.
- If you go on holiday, your pocket money changes into several thousand yen, dong or lire, which sounds like a lot but is only enough for like one can of 7-Up.
- If you want a rise in pocket money, wait until Dad has had dinner and is on his second Scotch.
- Folding all your money into a thick bundle and carrying it in your pocket

doesn't make it worth any more but feels really good.

- When you go on a trip, you always take some money to spend, and some as an emergency back-up supply, but by the end of the trip you always end up re-classifying all of it as money to spend.
- One of my kids is a spender, one is a saver, and the third is half-half. With luck, they'll learn from each other and end up with a healthy, balanced attitude. The real challenge is to make sure The Bank of Dad stays solvent.

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